

A Close Scrutiny of Self-Assessment System and its Impact on the Tax Compliance Level of Taxpayers: The Case of Wolaita Zone

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Abstract

The principal aim of the study was to explore the implementation of self assessment tax system and its impact on the tax compliance level of the taxpayers of Wolaita zone. Based on empirical works of scholars, self assessment system is believed to be effective in promoting voluntary tax compliance of the taxpayers provided that some conditions are met. These conditions are; Tax knowledge of the taxpayers, simplicity of the tax system, effective enforcement of the tax laws and penalties, good service to tax payers, simple filing procedure and risk-based tax audits. To test the implementation of these conditions in Wolaita zone, a set of close-ended questionnaires were administered to sampled taxpayers of the zone. A total of two hundred fifty respondents were selected based on simple random sampling from five purposively selected Woredas and addressed. In addition to this, unstructured interview was conducted for two zonal tax officials and two district collecting officials so as to obtain complementary tax collection information. The data gathered through questionnaires was systematically tabulated and analyzed using percentages, mean and weighted mean whereas the data gathered through interview was directly incorporated in the literature part of the study. According to the survey result; Even though Wolaita zone tried to implement self-assessment tax system, the practice is not good. Most taxpayers use official assessment system though the law required taxpayers to assess their tax liability by themselves. The reason is the lack of essential conditions of self-assessment. The study result shows that, most tax payers lack knowledge of the tax laws and procedures needed to apply self assessment system. The Ethiopian filing procedures are not simple for tax payers which makes it difficult to pay based on self assessment. Furthermore, there are no effective tax collection enforcement and penalty by Wolaita zone tax office.

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Based on the result, the risk based audits are not satisfactorily implemented in Wolaita zone. and most of the respondents responded that there is no good tax service by the tax collecting authority. The other essential condition of effective self-assessment system; fair and timely dispute resolution of the tax disputes is not fulfilled in Wolaita zone tax administration. To effectively implement the self-assessment tax system, the authors of this research recommend policymakers to create awareness of the tax laws through tax education programs, to simplify the tax laws and tax filing procedures, to create effective tax administration so as to effectively enforce the tax laws, to apply the tax penalties strongly and uniformly, to improve the tax service provided for tax payers and to implement effective risk based audits on the tax documents of the taxpayers regularly.

Keywords: Self- assessment; tax compliance; Wolaita zone; essential conditions.

1. Introduction

The need for public revenue dates back to the creation of states many centuries ago. At the earliest times, the function of states was limited to police-statehood focusing mainly on protecting the peace and security of its societies the realization of which needed revenue mainly collected from agricultural produce of farmers. In modern times, the function of states expanded beyond limited security roles to demand states provide its citizens various services such as public goods, health services, education infrastructures, etc. The most dependable source of revenue for governments to cover their public expenditure is tax.

Tax is defined as ‘a compulsory levy, imposed by governments, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return according to author[1].’ Even though the main objective of imposing certain taxes on the public is to generate revenues for the government, there are other functions including reducing inequalities through a policy of redistribution of income and wealth so that income gap between the rich and the poor is minimized. Tax systems are also designed for social purposes, such as discouraging certain activities in author [1]. However, the purpose of taxes may be defeated with adverse impact if they are not properly applied and administered. A well-known economist called Adam Smith contended that for a tax system to be effective it must ensure four cannons of taxation namely; equality, convenience, certainty and efficiency. No tax system can be regarded as good if one of the above elements is lacking. Despite general consensus on these principles, the mechanisms employed to realize them are not always as easy as they seem. The most important challenge faced by tax systems is the assessment technique to be used in the process of tax collection activities. Assessment is defined as the process of determining the tax amount payable by the taxpayer to administrative officials. So far, two major tax assessment techniques are applied in the world in author [2]. While official/administrative tax assessment method was applied for centuries, self assessment system gained acceptance recently as governments found it useful and simple.

Income tax has traditionally been assessed by the tax officials. Under an administrative assessment system, the burden is on the tax administration to examine tax returns and financial statements, calculate the amount of tax payable, and notify the taxpayers of the tax liability

Administrative assessment systems are resource-intensive and tend to be ineffective because of reasons such as: high cost to administer because of the high level of intervention of tax officials; resource limitations to check tax returns; poor taxpayer education and assistance programs; less tax collection overall because of insufficient focus on the highest revenue risks and high level of dispute. Whereas, self assessment requires taxpayers to perform certain functions and exercise some responsibilities that might otherwise be undertaken by the Tax Office. During self assessment, the tax offices still issues notices of assessment (to create the formal obligation to pay tax), but returns are generally taken at face value, subject to post-assessment risk based audit and other verification checks. The Tax Offices are allowed to amend errors of calculation, mistakes of fact and mistakes of law after processing the assessment and collecting the tax payable or paying a refund. Depending on the circumstances, returns may be re-opened many years after the original assessment. In this way, the introduction of self assessment meant a change in the balance of costs and risk between the Tax Office and the taxpayer. The change also meant that the Tax Office's resources could be used more efficiently, so that more revenue could be collected for the same administrative cost. In relation to the efficiency principles discussed earlier, objectives supporting the change to self assessment system are to increase voluntary compliance, reduce tax authorities' burden of assessing tax returns and increase tax collection efficiency(reduce tax collection costs). Even though self-assessment technique is introduced in many countries including Ethiopia, its practicality is limited due to various reasons and even on those situations in which it is implemented; it is accompanied with various problems and irregularities. The change to SAS has raised issues linked to the competency, honesty, capability and readiness of taxpayers to receive the burden of calculating and assuring the accuracy of the tax returns. For example, under the direct assessment, it is assumed that individual taxpayers might not possess the sufficient knowledge to compute their tax payable but in SAS, tax knowledge is vital as an insufficient level of tax knowledge may result in inaccurate tax returns and therefore computation of tax liability in author [1]. Even though most countries have introduced self-assessment principles in the income tax law, the legal authority is not being consistently applied. Many countries, though at different stages, continue to rely heavily on "desk" auditing all or a majority of income tax returns, while risk management practices remain largely underdeveloped and/or underutilized according to author [3]. Similarly Ethiopia introduced self assessment system long ago using author [4] but its implementation is still poor since officials determine the tax payable by themselves in a majority of cases.

1.1. Statement of the problem

No doubt self assessment has been proven for better tax compliance. The objectives supporting the change to self assessment system (SAS) are to increase voluntary compliance, reduce tax authorities' burden of assessing tax returns and increase tax collection efficiency. However, the change to SAS has raised issues linked to the competency, honesty, capability and readiness of taxpayers to receive the burden of calculating and assuring the accuracy of the tax returns. For example, it is assumed that individual taxpayers might not possess the sufficient knowledge to compute their tax payable but in SAS, tax knowledge is vital as an insufficient level of tax knowledge may result in inaccurate tax returns. Ethiopia introduced self assessment system in 2002 while it was taking an income tax reform using the income tax proclamation 286/2002. But its implementation is still poor since officials determine the tax payable by themselves in a majority of cases. (Wolaita Zone revenue office). Even though self assessment system was introduced in Ethiopia, the degree of implementation and the

challenges surrounding it are not properly addressed in Wolaita zone. It is due to this problem that the research title is coined.

1.2. Objectives of the study

The principal objective of this article is to find out the challenges facing tax payers while implementing self assessment system and to uncover their impact on the compliance level of tax payers of Wolaita Zone.

1.2.1. Specific objectives:

At the end of this research work, the following specific objectives will be expected to be realized. **These are;**

- To expose the level of awareness of tax laws and calculation techniques by taxpayers of Wolaita Zone.
- To find out about whether taxpayers keep records of the necessary documents
- To discover the quantity of tax payers that use tax professionals to calculate their tax liability
- To examine the degree of applicability of self assessment system in Wolaita Zone
- To ascertain the challenges faced by tax payers in implementing self assessment system
- To outline the effect of limitations of implementing self assessment system on the tax compliance level of tax payers.

1.3 Research questions

The most important research questions that our project will try to answer are:

- To what extent is self assessment applied in Wolaita Zone?
- Do taxpayers have enough knowledge to calculate their tax liability?
- What portion of taxpayers use tax professionals to calculate their tax liability?
- What problems do taxpayers face while determining their tax liability based on self assessment system?
- Do tax payers keep records of the necessary documents and invoices?
- Is self assessment effective in minimizing avoidance and evasion?
- Is tax compliance level of Wolaita Zone improved by using self assessment method?

1.4 limitations of the study

The study was designed to cover 333 taxpayer respondents. However, due to the unwillingness of the respondents, only 250 of them were addressed. This has created some inaccuracy on the representation degree of the sample taken from the voluntary respondents.

2. Materials and Methodology

2.1 Area of Study

The study was conducted in Wolaita Zone which is located in SNNP Region of Ethiopia. The study area is

divided into twelve district administrations and three town administrations. According to a pre-proposal survey conducted by the research team, around 1054 category A taxpayers, around 1113 category B taxpayers and around 13138 category C taxpayers were identified as registered by the revenue bureau of this zone. According to the Ethiopian income tax proclamation (FDRE Proc. 286/2002), Schedule B and C tax payers shall declare their tax liability by themselves. Among schedule B and C taxpayers, standard assessment or presumptive taxation is applicable for category C taxpayers. These category taxpayers are not required to declare their tax liabilities by themselves. Hence, self assessment system is applicable for category A and B tax payers only. Therefore, the research had targeted only these two categories (Category A and category B) of taxpayers running their businesses in Wolaita zone.

2.2 Study Design

The study has been conducted based on primary (legislations, court decisions, interview, questionnaires etc) and secondary data (books, scholarly articles, reports and websites) data sources. To collect the primary data, the team has determined a reasonable sample size using internationally acceptable formula. After the data is collected using appropriate techniques, the data gathered was processed using various processing methods such as classification, tabulation analysis, mean and average methods. Both quantitative and qualitative methods of analysis have been implemented to arrive at best conclusion and result.

Based on the information obtained from Wolaita zone comprising twelve district administrations and three town administrations, the total businessmen registered under category A and B is 2167. From this number about 1828 of them which means 89% of the tax payers are found only in five towns namely; Sodo, Areka, Bodity, Humbo and Ofa towns. Therefore, I had selected these five towns as representative samples. The targeted taxpayers are 1828. The sample size calculation for taxpayers was determined based on the Cochran formula of sample size determination. The formula indicates that;

$$n = \frac{1 + (n_0 - 1)}{N}$$

Where n = adjusted sample size, N = population size, n_0 = sample size.

The use of this formula implied reading from the table of sample size determination and the researcher computed n_0 as follows:

For $N = 3000$, $n_0 = 97$, for $N = 2000$, $n_0 = 95$, for $N = 1828$, $n_0 = X$

3. Literature Review

3.1 The approaches to tax assessment

Income tax has traditionally been assessed by the tax departments which is known as administrative assessment. Under an administrative assessment system, the onus is on the tax administration to examine tax returns and

financial statements, calculate the amount of tax payable, and notify the taxpayers of the tax liability in [3]. Under administrative assessment, taxpayers are only required to file their returns and report their incomes that were assessable to tax. Tax collecting authority has the mandate to assess the taxpayers tax liability and issue notice of assessment based on which taxpayers will be obliged to pay the required amount in [3]

Key features of the administrative assessment system are in [3]:

- Taxpayers report on their activities on an annual basis.
- Reporting consists of completion of a tax return and filing financial statements, and other supporting information to the tax administration.
- Tax returns and the supporting financial statements are reviewed and verified by tax officials.
- The tax administration makes the decision on the tax liability and informs the taxpayer of what to pay, typically through a notice of assessment.
- Taxpayers pay the tax due or object to the assessment.
- The tax administration reconciles assessment notices and payments.

However, administrative assessment systems are said to have been resource-intensive and tend to be ineffective. It was considered by many jurisdictions as costly, inefficient and complex to administer since it imposes much burden on tax administrators.

As a result of its drawbacks and challenges various countries abandoned the administrative assessment system and sought for another alternative system of tax assessment.

Self-assessment refers to an assessment procedure based on the assumption that all information reported by the taxpayer is correct and need not be checked by the Inland Revenue officers. It refers to a system whereby the taxpayer has to be more responsible in ensuring that the correct information is provided in the Income Tax form and the Inland Revenue accepts it in full trust that the content is correct and true according to author in [5]. The form is unquestionably accepted by the Inland Revenue unless when there is doubt as to the authenticity of the information given author in [6].

SA can be defined as 'a Do it' it yourself whereby taxpayers are required to file their tax returns, reporting their respective income that is assessable to tax and determining their respective tax liabilities on the basis of their tax returns author in [7]. Under SA the onus is on the taxpayer to understand, interpret and apply the laws to their circumstances.

Several tax administrations in both advanced and developing countries have adopted a self assessment system for tax filing purposes. Internationally, there has been a steady movement towards self-assessment and away from administrative assessment practices. In fact, self-assessment for tax purposes is not a new phenomenon. Canada and the United States first implemented self assessment in the 1910s, followed by Japan in 1947 author in [2]. In the last 30 years, however, the spread of self-assessment for income tax has been a common phenomenon—Sri Lanka (1972), Pakistan (1979), Bangladesh (1981), Indonesia (1984), Australia (1986-87), Ireland (1988), New Zealand (1988) and the United Kingdom (UK) in 1996-97 as author in [8]. Presently,

around half (18) of revenue bodies in the OECD, for example, apply self assessment principles for the PIT while 22 apply self-assessment for CIT author in [9]. Author in [10], stated that self-assessment was introduced in these countries for several reasons as follows:

- a. To encourage taxpayers to abide by the taxation voluntarily.
- b. To ensure efficient usage of tax administrators cost and resources.
- c. To ensure consistent performance in all assessment branches.
- d. To improve and increase tax collection

Based on the declared missions and objectives of self assessment from various countries who have adopted the system to date, it seems that voluntary compliance, administrative efficiency and improving fairness and equity are the key motivating factors for introduction of SAS author in [7].

3.2. The characteristics of Self Assessment system

The self-assessment system requires every taxpayer to provide full information about his or her income and to calculate the tax payable and make payment to the tax office in accordance with the tax laws author in [11]. The system of self-assessment relies heavily on voluntary compliance with the tax laws as its success depends on the integrity of the taxpayers. Self-assessment gives the taxpayer greater control and responsibility over his tax affairs author in [12]. To be successful, SA depends on high level of voluntary compliance by taxpayers. That is, SA requires taxpayers to understand the tax system and its procedures, to possess adequate tax knowledge, to be aware of their compliance obligations and to be prepared to comply author in [6].

SAS has distinct merits compared to an official assessment system. The chief merits are: (i) SAS is more cost effective as it only selects exceptional cases for further scrutiny, (ii) SAS eliminates the administrative nature of assessment work, (iii) SAS encourages an early and timely collection of taxes, and, (iv) SAS reduces corruption by reducing contacts with taxpayer author in [13].

3.3. Essential Conditions for a successful self assessment system

Various research outputs have confirmed that self assessment system could not be realized unless some essential conditions are established. The following topic discusses these conditions that must be realized for an effective self assessment system.

3.3.1. Tax knowledge of the tax payers with Clear and simple tax laws

One of the most essential factors influencing tax compliance in self assessment system is the knowledge of taxation. To improve tax compliance level by increasing the tax knowledge of taxpayers through education, specific tax education programmes for taxpayers have been implemented in most SAS countries including the US. Countries such as the US, Canada, Japan, New Zealand, Australia, the UK and Malaysia have all been

implementing a continuous tax education for taxpayers and children (as future taxpayers) author in [7]. Apart from these programmes to educate taxpayers directly and instill public awareness regarding tax matters, various countries such as the USA, the UK and Australia also have developed interactive websites, disseminated leaflets together with tax returns, opened call centers, created advertisements or supplied reminders via television and radio (e.g. to remind taxpayers of deadline dates for filings).

The positive impact that tax knowledge have on compliance behavior of the tax payers has been proven in various researchers author [14]. A lot of empirical studies have shown evidence that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them author in [15]. Author in [16] contends that; self-assessment requires taxpayers to understand the tax system and procedures, to possess adequate tax knowledge, to be aware of their compliance obligations and to be prepared to comply.

SA requires taxpayers to understand the tax system and its procedures, to possess adequate tax knowledge, to be aware of their compliance obligations and to be prepared to comply author in [17].

3.3.2. Good service to taxpayers

Self-assessment demands that tax administrations adopt a service-oriented attitude toward taxpayers, ensuring that taxpayers have the information and support they need to meet their tax obligations. author in [18] suggests that a polite and helpful tax administration and simplification of tax forms could lower compliance costs and improve compliance at the margin. Taxpayers must receive clear information describing their obligations, the taxes applicable, and when and where they are payable author in [3]. They need to be informed about changes to the laws and they should have easy access to information and tax forms. The components essential for fair tax service are neutrality of the procedure, trustworthiness of the tax authorities and polite, dignified, and respectful treatment of the taxpayers according to author in [19].

3.3.3 Simple filing and payment procedures

One of the basic characteristics of self assessment system is that it requires a tax from/ return that is prepared by the tax authority and issued to taxpayers so that they can fill their tax liabilities based on the law. Evidence suggests that uncomplicated tax returns play a major role in improving tax compliance author in [20]. Tax forms must be simple, with clear instructions on how to complete them author in [3].

3.3.4. Effective collection enforcement

Prompt detection of taxpayers failing to file tax returns and/or pay the tax due and taking swift measure is critical to improve tax compliance author in [3]. Author in [21], suggested that no tax will work effectively, unless its administrators maintain an aggressive attitude with respect to the correctness of the taxpayers' actions. They added that the prevalence of ineffective tax administration is the presence of a very large delinquency in tax payments for it indicates the lack of taxpayer respect for the tax system. The taxpayer in effect is acting on his belief that the administrative machinery may bark, but that it has no bite. Rational and efficient procedures,

higher personnel standards, better management, improvement in relation with the public and in the daily contacts between tax official and taxpayer, can help increase the public respect for the tax administration author in [22].

3.3.5 Selective risk-based audit

According to author in [23], a tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligations. Author in [24], defines tax audit as an examination to determine whether a taxpayer has correctly reported and assessed their tax obligations. It is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled other obligation author in [23]. The level of tax audit can be determined by two elements: one is how many taxpayers are selected for audit and the second is how much intensive the audit is author in [25]. The first element is easily measured by the number of audited taxpayers divided by the total number of taxpayers. Tax audits are often more detailed and extensive than other types of examination, such as general desk checks, compliance visits/ reviews or document matching programmes. Thus, the primary purpose of tax audit is to ascertain the extent to which tax payers may have complied with the relevant statutory provisions of the tax Act concerning their audited financial statements and other tax-related returns author in [26]. Taxpayers must know that if they fail to comply with the tax laws, they face a reasonable risk of being detected. Self-assessment systems therefore depend heavily on a strict audit program focused on higher-risk taxpayers. Author in [27] shows evidence in support of the effectiveness of tax audit in self-assessment systems; though they may need to be specifically designed for the intended taxpayer group. Author in [28] using his experimental studies suggested more generally that a higher audit rate leads to a better tax compliance and has a direct effect on tax collections of reported amount.

3.3.6 Fairly applied interest and penalties

Interest and penalties serve to remind taxpayers of the need to take reasonable care in preparing their tax returns and managing their tax affairs. Interest and penalties must be neither too lenient nor unrealistically harsh, and must be applied consistently throughout the country and between taxpayer groups according to author [3]. As with tax audits, penalties and fines also appear to play a significant role in the success of SAS. In a SAS, taxpayers are also faced with a more difficult tax compliance task when compared to a direct assessment system. Since SAS is heavily reliant on the honesty of taxpayers and is also not subject to complete scrutiny or assessment by the tax authority, the execution of penalties is important compared to in a direct assessment system author in [1]. Even some scholars have proved that penalties have a bigger impact on compliance than the probability of being audited author in [29]. According to author in [30] by their study on small and Medium businesses of Kenya contended that fines and penalties positively influence tax compliance but not to a very great extent.

3.3.7 Fair and timely dispute resolution

While a tax administration must have effective powers to detect and sanction non-compliance, it is also important that taxpayers have access to an appeal process to protect their rights. When taxpayers disagree with

the results of an audit, they must have access to processes for the resolution of any dispute with the tax office. The processes should be simple, neutral, and transparent, and typically include: (1) an independent administrative appeals process within the tax administration; (2) a special tribunal when the taxpayer is dissatisfied with the outcome of the administrative appeals process—the tribunal should include qualified professionals, typically considered as judicial appointments at the level of the lower courts of law; and (3) a judicial process to resolve matters of law and assure procedural fairness author in [3].

4. Results and discussions

4.1 Respondents educational profile

One of the most important determinants of implementing self assessment tax system is knowledge of the taxpayers of the tax laws. To be able to know the Ethiopian tax laws one have to have the capability to read and understand complex legal and accounting rules which cannot occur without having at least diploma or degree level of education. Respondents were let to fill questionnaires aimed at their own respondent educational profile. The following table summarizes the respondent's educational profile as gathered from them.

Table 1: Respondent's educational profile

Level of education	No. of respondents	Percentage
No education	34	13.6%
Primary education	83	33.2%
Secondary education	85	34%
Diploma	33	13.2%
Degree	15	6%
Second degree	0	0%

As can be understood from the table while 13 per cent of the respondents have no any education at all, 33.2% of them have only primary education. Tax payers who reach secondary level education counts 34% of the respondents. Among the total of two hundred fifty respondents, 202 (80.2%) of them have secondary and below secondary level education. Implementing self assessment system needs not only the capability to read and write but also the ability to understand the complex legal provisions and accounting rules and calculations and to know how to fill the tax return forms based on the provisions of the law. Nevertheless, the educational level of majority of taxpayers of wolaita zone do not allow them to do so.

4.2 Regarding the implementation of self assessment system in Wolaita zone

Table 2: Implementation of self assessment in wolaita zone

N0.	Question	Response and percentage	
		Yes	No
1.	I know that I have an obligation to apply self Assessment	85(34%)	165(66%)
2.	I perform my tax liability using self assessment system	63(25.2%)	187(74.8%)
3.	I pay my tax liability using Official assessment though I know self assessment is an obligation	87(34.8%)	163(65.2%)
4.	I prefer self assessment than official assessment	158(63.2%)	92(36.8%)
5.	I know how to fill the tax return form	54(21.6%)	196(78.4%)
6.	The tax return form is simple to fill	42(16.8%)	208(83.2%)
7.	I have ever been liable for not filling the tax return form	33(15.2%)	217(86.8%)

Source; respondents response

The first question forwarded to taxpayers was whether they are aware of self- assessment system as a legal obligation of every category A and B taxpayer. Among our respondents sixty six per cent of them do not know self assessment system to be a mandatory obligation of the tax payers. Only 34 percent of them have a clear idea of it and the mandatory nature of the law on self assessment. This shows that little has been done on awareness creation of the tax laws for ordinary taxpayers.

The second question forwarded for these taxpayers was whether they have been applying self assessment system to fulfill their tax compliance obligation. According to the data gathered, the vast majority of the taxpayers in wolaita zone do not use self assessment system to calculate their tax liabilities. Rather, the tax authorities themselves determine their tax liabilities by using simple estimation method since taxpayers are not willing and unable to fill their tax duty by themselves and since they do not cooperate to provide enough information for the tax collecting authority. Among our respondents about 74 % of them say they fulfill their tax obligation based on official assessment system whereas only 26 % of the respondents are applying self assessment system to pay their tax. Some of the tax payers fail to use self assessment though they are aware of it as a legal obligation. Their reason for failing to apply self assessment is due to lack of knowledge how to fill the tax return form and other legal provisions.

The other question administered to these respondents was whether they prefer self assessment or official assessment to fulfill their tax liabilities for the government. The vast majority of the respondents prefer self assessment as the best and reasonable method of performing tax obligation. According to respondent's response, official assessment is unfair in that horizontal and vertical equity may not exist since tax liabilities are determined by estimation. Some taxpayers may be overtaxed while others may successfully escape taxation. Among our respondents, around 63% of them prefer self assessment while the rest are in favor of official assessment. Despite a strong desire for self assessment, these taxpayers do not have the knowhow how to apply self assessment system since they have grave knowledge limitation of the tax laws and procedures.

The other point raised for respondents was the tax return form. For the question whether Ethiopian tax return forms are simple and easy to fill in, only 42 % of the respondents responded yes. The remaining 58% taxpayers of wolaita zone face difficulty in filling the tax forms. They say they are complex and accounting jargons difficult to be understood by a layman. While 22 % of the category A and B taxpayers of wolaita zone know how to fill the tax return forms, the majority of them 196(78%) are tax illiterate and lack the knowledge of filling tax return forms.

On the other hand most of the respondents faced no liability for failing to fill the tax declaration forms. One of the most important obligations of Ethiopian businessmen as stipulated by the Ethiopian income tax proclamation is to fill the income tax declaration forms in due time. Failure to do so could be followed by fines and penalties. Despite this legal obligation most of the taxpayers of Wolaita zone who do not fill the declaration forms/ tax return forms never face liability. Accordingly, among our respondents, 217(86.8 %) of them responded that they didn't face fines and liabilities for failure to fill tax return/declaration forms in due time while only 13.2 % of the respondents have face fines and warnings from the tax collecting authorities.

4.3 Regarding knowledge of the tax laws and procedures by the tax payers

One of the essential conditions that must be realized in a country that need to implement self assessment system effectively is improving the knowledge of the tax laws and procedures of the taxpayers. As we have stated in the literature part, self assessment system needs taxpayers to calculate their tax liabilities by themselves by applying the legal provisions and keeping relevant documents. This self filling obligation requires taxpayers to understand and apply the laws which in turn cannot be achieved without proper knowledge of the tax laws and procedures. To grasp the fulfillment or nonfulfilment of this essential condition, the research team has addressed some closed ended questions for the taxpayers of the zone. The following table summarizes the responses obtained from these businessmen.

From the above table for a question whether they have ever obtained any training on the Ethiopian tax laws and procedures, around 157(74.4%) of the respondents among 250 responded that they have been given some training. This shows that there have been some kind of effort from the tax authority to create awareness of the tax laws. However, the trainings are not detailed and extensive and in particular the trainings that have been given were not targeting self-assessment system can be understood from the subsequent responses.

Table 3: knowledge of the tax laws and procedures by the tax payers

No.	Question	Response rate and percentage	
		Yes	No
1	I have ever obtained training on the Ethiopian tax law and its procedure	186(74.4%)	14(25.6%)
2.	I have got enough training on how to keep book of account and how to apply self assessment system	93(37.2%)	157(62.8%)
3.	I know that failure to keep documents and book of account is punishable up to five years	113(45.2%)	142(54.8%)
4.	I know deductible and nondeductible expenses in the income tax law	34(13.6%)	221(86.4%)
5.	I know How to apply the tax rate on the taxable income	46(18.4%)	209(81.6%)
6.	I know how to apply tax credit	43(17.2%)	207(82.8%)

Respondents were asked as to whether they have enough training on how to keep book of account and how to apply the self assessment system. Among our respondents only 93(37.2%) Of them responded that they have got good training while the rest 167(62.8%) did not get good training, expecting the realization of self assessment without knowledge of the tax payers is an impossible dream. In turn knowledge of the taxpayers cannot be complete without the know how to fill and keep books of accounts.

The other checklist that could help to assess the tax knowledge of the taxpayers is whether tax payers know the consequences of failing to keep books of account and other documents for at least five years. among our respondents 113(45.2%) of them doesn't know that they have an obligation to keep tax documents and book of account for five years and the consequences of such failure whereas 142(54.8%) of the have the knowledge about the consequences of such failure. Here we can observe that taxpayers have better awareness on the duty of keeping books of account and other relevant documents.

As elaborated in the literature review part self assessment system requires taxpayers to calculate their tax liability by interpreting the legal provisions. To calculate their real tax liability taxpayers need to have the knowledge about deductible and non deductible expenses. It is only after allowable deductions are deducted that the taxable income of the taxpayers can be obtained. To uncover this fact a question was forwarded to the tax payers as to whether they know deductible and non deductible expenses. Based on the responses only 34(13.6%) of the respondents responded as having the knowhow of deductible and nondeductible expenses on the Ethiopian income tax law. The vast majority of the respondents 221(86.4%) do not know deductible and

nondeductible expenses.

To arrive at the net tax payable, taxpayers need to apply the legal tax rate on taxable income of the taxpayer. To apply the tax rate taxpayers must have the knowledge how to apply the tax rate. To test this factor respondents were asked as to whether they know how to apply the legal tax rate on their taxable income. Accordingly, only 46(18.4%) of the respondents know how to apply the tax rate while 204(81.6%) of them do not know how to apply the tax rate.

Respondents were also asked whether or not they know how to deduct the tax credits. Among the respondents, only 43(17.2%) of the respondents said they know how to apply tax credits based on the tax laws while the rest 207(82.8%) of them are not aware of the legal provisions about applying tax credits.

4.4 Regarding selective risk based audit

.To assess the existence or non existence of selective risk based audit in wolaita zone some six checklists were prepared and forwarded to our respondents. The following table summarizes the questions administered to our respondents and the response rate obtained

Table 4: Regarding selective risk based audit

No.	Question	Response rate and percentage	
		Yes	No
1.	I preserve accounting documents for five years	78(31.2%)	172(68.8%)
2.	I know that sudden audit may be done on me after I pay the taxes	61(24.4%)	189(75.6%)
3.	I have ever been audited after I paid the taxes	32(12.8)	218(87.2%)
4.	I fear that If I am audited, I will be responsible	161(64.4%)	89(35.6%)
5.	Post payment Tax audit in wolaita is not effective	154(61.6%)	96(38.4%)
6.	I have never been told to keep documents and the duty of audit	145((58%)	105(42%)

As we explained above, selective risk based post payment tax audit is one of the most important essential conditions for effective implementation of self assessment system. Based on the above table however, the practicality of selective risk based audit in wolaita is very limited. The data obtained from our respondents revealed that most of the taxpayers are not regularly audited by the tax authority. Since most of the taxpayers pay their tax based on official assessment, there is very limited room for post payment inspection and audit.

According to the Ethiopian income tax law, tax payers are duty bound to preserve books of account and other relevant documents for the purpose of inspection and auditing at least for five years after making payment of their tax. For the question as to whether they keep accounting documents and book of account for post payment inspection and audit purpose, only 78(31.2%) of the respondents responded they do whereas the rest 172(68.8%) respondents do not preserve these documents for five years.

The other checklist used to assess the effective implementation of audit in wolaita zone is whether taxpayers know the possibility of sudden inspection and audit any time by the tax authority. For this question, only 61(24.4%) of them said that they know such thing as post payment inspection and audit whereas the rest 189(75.6%) of the respondents have no any clue about this post payment risk based audit idea. For the question if they have ever been inspected and audited by the tax authority after they paid their tax liability, only 32(12.8%) of the respondents responded yes while the rest of the respondents 218(87.2%) said they haven't been inspected and audited after payment of the taxes. On the other hand for the question asked whether they have been told about the duty of keeping books of account and the duty of post payment audit, 145(58%) of the respondents say yes whereas 105(42%) of them responded no. It shows that the tax collecting authority has tried to aware its tax payers about post payment audit even though practically they have failed to enforce the law and regulations effectively.

4.5 Regarding the Clarity and Simplicity of Ethiopian Tax Laws

As we have tried to explain in the literature part of this paper, clarity and simplicity of the tax laws is another important factor for the effective implementation of self assessment system in a given tax system. This is due to the fact that tax payers who are mandated to calculate their tax duty by interpreting and applying the legal provisions should be able to understand them. The following table summarizes what the taxpayers of Wolaita zone perceive of the existing Ethiopian tax laws.

Table 5: Regarding the Clarity and Simplicity of Ethiopian Tax Laws

No.	Question	Disagree	I don't know	Agree
1	Tax laws are very simple and clear to understand to apply for self assessment	176(70.4%)	24(9.6%)	50(20%)
2	I believe that Ethiopian tax law is systematically arranged and effective	192(76.8%)	33(13.2%)	25(10%)
3	There is a clear codified tax procedure rules	162(64.8%)	51(20.4%)	37(14.8%)

As we can see from the above table vast majority of the taxpayers of wolaita zone do not believe that the tax laws are simple. About 176(70.4%) of the respondents disagree on the premise that Ethiopian tax laws are simple, clear and easy to understand. About 192(76.8%) of the respondents also do not agree on the premise that

Ethiopian tax laws are systematically arranged and effective. Their response is shared by the scholars who researched and wrote on the Ethiopian tax system. Another difficulty of the Ethiopian tax system is that it doesn't have a codified organized tax procedure codes. Around 162(64.8%) of the respondents agreed on the absence of organized clear tax procedure code that can guide them on how to effect their payment procedure. In conclusion, despite the need for clear, simple and organized tax rules for effective implementation of self assessment system, the tax payers of wolaita zone found it complex and tiresome to understand the Ethiopian tax rules which had made it impossible to implement self assessment system.

4.6. Regarding Penalties and Effective enforcement

The other important essential condition that must be implemented by every tax system that need to apply self assessment properly is tax penalties and fines on the evaders and effective tax collection enforcement by the tax authority. To assess the proper implementation of this essential condition of self assessment among the taxpayers of Wolaita zone, some close ended questions were addressed to them. The following table summarizes the responses obtained from the respondents.

Table 6: Tax penalties and effective collection enforcement

No.	Question	Agree	I don't know	Disagree
1	The tax authority could relieve me of penalty in case I am found to have evaded tax liability	108(43.2%)	60(24%)	82(32.8%)
2	I do not submit the true income report to the tax authority since I believe that the authority has limitation to audit reports	95(38%)	63(25%)	92(36.8%)
3	The penalty I suffer because of failure is less than the loss I incur by paying the exact tax liability	87(34.8%)	58(23.2%)	105(42%)
4	I may face severe penalty if I evade my tax liability	135(54%)	45(18%)	70(28%)
5	Most people who refused to comply with their tax duty didn't face any penalty.	103(41.2%)	48(19.2%)	99(39.6%)

As it can be understood from the above table, tax penalty and enforcement in wolaita zone is somewhat good but not satisfactory. Taxpayers will fulfill their tax obligations honestly if they have a firm belief on the consequences of their failure. They will comply with their duty if they are sure about what is going to happen on their failure. From the responses, it is clear that the tax authority penalize some taxpayers occasionally but not regularly. This may open a door for fraudulent taxpayers to believe that enforcement is weak and evasion is possible and safe. According to the data 43% of the respondents believe that they might be relieved off any penalty in case they are found by the tax authority to have evaded their tax obligations while 32% them contend

that they may face liability upon failure to comply with their tax obligation. On the other hand 38% of the respondents believe that submitting true or fake financial report doesn't make any difference since the tax authority has weaknesses in inspecting and auditing financial documents properly. About 36% of the respondents do not agree as they believe that the authority could inspect and audit them fake financial report will make them responsible. For the question whether or not the tax penalty they suffer is less than the amount of tax liability, 34% of them agreed while 42% of them disagree with this checklist. This shows that the amount of penalty taxpayers face is huge as compared to their tax obligation which may force them to comply with their duty if it is effectively enforced. About 54% of our respondents fear that they may incur sever penalty if they evade their tax obligation while only 28 % of them do not expect sever penalty after tax evasion. For the question whether or not most people face penalty for tax fraud 41% of respondents say yes people are liable and penalized whereas 39% of them say no people who evaded their tax duty effectively escape their tax penalty. The fact that the numbers are close shows that Penalty and tax enforcement in wolaita zone exists to some extent. However, much has to be done to strengthen so as to create an impression on the taxpayers that failure to pay and effective strong penalty existed so that they will commit their duty.

4.7.Regarding the service to taxpayers

This is another important essential condition that need to be in place in every tax system that need to effectively implement self assessment system. The following table summarizes the responses as follows.

Table 7: Service to taxpayers

No	Items	Response	
		Yes	No
1	The tax collection system is weak	154(61.6%)	96(38.4%)
2	There is an electronic payment system	0(%)	250(100%)
3	I am exhausted of much queuing	143(57.2%)	112(42.8%)
4	There is servant leadership by tax collectors	93(37.2%)	157(62.8%)
5	There is a good website and brochure to get new laws	134(53.6%)	121(46.4%)
6	There are seminars and other facilities to give me enough information about my tax duty	112(44.8%)	143(55.2%)

Our survey result showed that taxpayers of wolaita zone feel the tax authority to be weak in its administration and service delivery. It is not well-organized in its structure. The office lacks both qualified human power and facilities such as buildings, furniture and other office equipments. Sometimes taxpayers have to come repeatedly to the office to get the service. tax audit personnel and authorities held repeated meetings during working hours.

As a result taxpayers are not getting appropriate service from the tax collecting authority.

For the question asked whether the tax collecting authority is weak or strong, 154(61.4%) of the respondents believe that it is weak to deliver appropriate service to customers while 38.6% of them responded otherwise. It must be noted that good service to taxpayers cannot exist if the tax authority is weak and disorganized. The second item forwarded for respondents was whether there is an electronic payment system to effect the payment of the tax liability and the response showed no electronic payment system has been established yet. In the developed world where self assessment system is effectively implemented, authorities have developed electronic payment system. This system reduces many challenges of the taxpayers and help them to fulfill their obligation easily without obstacles. However, all the respondents responded that no electronic payment system has been established yet in wolaita zone. Self assessment is a voluntary tax compliance scheme in which taxpayers need much care and respect. They shall not be tired in order to pay taxes. One of these characteristics is quick and fast service to taxpayers. To assess this, respondents were asked whether they have to queue at the tax office to pay their taxes. For this item 143(57.2%) of our respondents said they queue. Sometimes they have to queue for hours to process the audit and to pay the tax amount. For the other item whether tax collecting personnel feel servanism in while contacting with taxpayers, 157(62%) of them say no. Self assessment needs the presence of well-developed and up-to-date website to help taxpayers obtain the latest information on the tax laws and procedures and measures of the government. The response obtained from respondents showed that there is tax website although not all information and laws are updated. Another item asked was whether there are seminars and other facilities to give taxpayers enough information and education about my tax duty. Among our respondents, 112(44.8%) of them responded that enough seminars are organized, while 138(55.2%) of them say no enough seminars are organized.

4.8. Regarding fair and timely dispute resolution

As is has been explained in the literature section the existence of fair and timely dispute resolution is another essential condition for self assessment system. when dispute arises taxpayers need neutral court and dispute resolution institutions so that they could get satisfactory decision. The following table shows the response rate.

Businessmen needs neutral, fair and effective dispute resolution system so as to implement self assessment system effectively. However, the data gathered from the taxpayers revealed that such a fair dispute resolution process does not exist. For the question whether or not there is a neutral free administrative tax appeal committee to hear taxpayers complaint, about 194 (77.6%) of the respondents said no. This shows that the vast majority of taxpayers are not satisfied with the existing tax dispute system. For the other question of whether there is neutral administrative tribunal that can settle tax disputes, 202(80.8%) of them do not believe that there is neutral tax appeal commission. Nevertheless, considerable number of respondents believe in the existence of free and fair court though with reservations.

5. Conclusion and Recommendation

One of the most important issues in any tax system is the assessment method employed to arrive at the

appropriate amount payable and to make citizens comply with their tax duty. Even though administrative tax assessment system was the dominant system of imposing taxes in the past, most governments gradually shifted to self assessment system due to various reasons. Governments adopting self assessment system contend that this system helps reduce administrative costs, increase voluntary compliance, decrease compliance cost, reduce official burden, create trust between tax officials and taxpayers and create efficient tax system. Despite overall consensus on the preferability and applicability of the system however, there are a lot of issues revolving around this method especially in developing countries such as Ethiopia.

Table 8: Fair and timely dispute resolution

No	Item	Response	
		Yes	No
1	There is a neutral free administrative tax appeal committee to hear my complaint	56(22.4%)	194(77.6%)
2	There is neutral administrative tribunal that can settle tax disputes	48(19.2%)	202(80.8%)
3	Courts serve me fairly and free of government intervention	112(44.8%)	138(55.2%)

Ethiopia is one of the countries that has adopted self assessment system in 2002. Despite the fact that self assessment system has relevance in encouraging voluntary tax compliance, the survey result of this research output revealed that self assessment system is not appropriately implemented in Wolaita zone. Various research outputs have confirmed that self assessment system could not be realized unless some essential conditions are established. One of the most essential conditions that must be established is knowledge of the taxpayers about the tax laws and procedures of the country. Nevertheless our survey result showed that tax payers of Wolaita zone are not fully and sufficiently aware of Ethiopian tax laws and procedures. The other essential condition that must be established for an effective implementation of self assessment system is the clarity and simplicity of the tax laws. Nevertheless, Our survey result reveals that Ethiopian tax laws are much complex and disorganized here and there. Effective risk based audit by the tax collecting authority is another essential conditions agreed by scholars to be established for a better self assessment. However, the data obtained from the taxpayers of Wolaita zone shows the laxity of inspection and audit practice of the tax collecting authorities in the Zone. Another essential condition was tax penalty and effective collection enforcement though the survey result shows the opposite. If self assessment system is to work effectively, then tax authorities must be able to good service to taxpayers. But our study uncovered that in wolaita zone the tax service provided to taxpayers is very poor, disorganized and underdeveloped. Similarly fair and speedy fair trial is not established in Wolaita zone even though it is one of the essential conditions for an effective self assessment system. To effectively implement the self-assessment tax system, the authors of this research recommend policymakers to create awareness of the tax

laws through tax education programs, to simplify the tax laws and tax filing procedures, to create effective tax administration so as to effectively enforce the tax laws, to apply the tax penalties strongly and uniformly, to improve the tax service provided for tax payers and to implement effective risk based audits on the tax documents of the taxpayers regularly.

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Appendix

Questionnaires

Dear respondents, we kindly request you to help us improve the fairness of tax administration system by responding to our questions based on the given instructions:: We want to assure you that any information that you include in this questionnaires will be kept secret in any way and it will not be exposed for anybody or institution. You are not expected to write your name or tax identity number in this form. The reason why we sought this information from you is to do a research aiming at the tax laws and procedures and administration of Ethiopia with the sponsorship of Wolaita Sodo University. Please respond to each item by putting X mark.

Section I:- Personal Profile

A) Age_____

B) SEX:- Male_____ Female _____

C) Level of education

1. No education at all
2. Primary education
3. Secondary education
4. Diploma

5. Degree

6. Postgraduate degree

D) Duration of the business

1. Less than One year_____

2. One - five years

3. More than five years

E) Type of business_____

Section II. Regarding the practicality of self assessment tax system in Wolaita zone

1. Do you know that you have a legal obligation to assess your own tax using self assessment?

A) Yes

B) No

2. Do you assess your tax liability by self assessment?

A) Yes

B) No

3.If you use self assessment when did you start it?_____ -

4. If you don't use self assessment what is your reason?

5. Even though I know the duty of self assessment I am paying using official assessment.

A) Yes

B) No

6.) I prefer official assessment from self assessment

A) Yes

B) No

7) I know that every businessman has an obligation to fill a tax return form and calculate his own tax liability by himself

A) Yes

B) No

8) I have ever filled the tax declaration form by myself

A) Yes

B) No

9) I have faced liability from authority because of my failure to fill the tax return form

A) Yes

B) NO

10) If you have ever tried to fill the tax return form, encircle any one or more of the items below

A) I couldn't understand the form

B) I don't know how to fill the form

C) it asks me a lot of complex information

D) It is full of technical terms

E) It is quite complex

Section Three: Regarding Knowledge of the tax laws and procedures

1) I have been given training about the tax laws and the payment procedures

A) Yes

B) No

2) I have been given enough training on how to keep books of account and apply self assessment

A) Yes

B) No

3) I know that failure to keep accounting documents for five years is punishable crime

A) Yes

C) NO

Section Three In relation to risk based selective audit and inspection

1) I keep book of account and other relevant documents for at least five years

A) Yes

B) No

2) It is impossible to keep documents for five years

A) Yes

B) No

2) I know that after payment post payment audit may be carried out on me

A) Yes

B) no

3) Have you ever post audited by the tax authority before?

A) Yes

B) No

4) DO you fear that unexpected audit by the authority may affect you?

A)Yes

B) No

If your answer is yes why you fear?_____

Section Four:- Regarding the clarity and simplicity of the tax laws

Dear respondents we request you to put an X mark in the boxes between one to five

1. strongly disagree 2. disagree 3 neutral 4. agree 5. strongly disagree

	1	2	3	4	5
1. Ethiopian tax laws are simple and clear for self assessment					
2. The tax laws are appropriately organized and effective					
3. There is a clear tax procedure code					

Section five: Regarding tax penalty and effective tax enforcement

	1	2	3	4	5
1. The tax authority could relieve me of penalty in case I am found to have evaded tax liability					
2. I do not submit the true income report to the tax authority since I believe that the authority has limitation to audit reports					
3. The penalty I suffer because of failure is less than the loss I incur by paying the exact tax liability					
4.I may face severe penalty if I evade my tax liability					
5. Most people who refused to comply with their tax duty didn't face any penalty.					

Section Six:- Regarding Service to taxpayers

	Yes	No
1. The tax collection system is weak		
2. There is an electronic payment system		
3. I am exhausted of much queuing		
4. There is servant leadership by tax collectors		
5. There is a good website and brochure to get new laws		
6. There are seminars and other facilities to give me enough information about my tax duty		

Section Seven; Regarding the existence of fair and speedy dispute resolution process.

1. There is a neutral free administrative tax appeal committee to hear my complaint	Yes	No
2. There is neutral administrative tribunal that can settle tax disputes		
3. Courts serve me fairly and free of government intervention.		